

Arms Sales *Sen Banking & Commerce*

The Senate Votes No

It was as tense a drama as had been played out in the Senate in many a moon.

The issue as posed by the Senate Foreign Relations Committee was: Should the Administration finance arms sales to underdeveloped countries, where they divert resources from economic progress and encourage regional arms races—all without proper regulation within the Executive branch or by Congress?

The issue as posed by the Administration: Should the Senate strike down a mechanism that enables the United States to supply the security needs of friendly countries (including Israel) on terms they can afford—remembering that in some regions, such as the Arab world, recipients denied U.S. weapons could buy them from Russia?

The issue was joined on the Senate floor last week and the Administration, with victory in its

pocket, lost by one vote because of what struck many Senators as a piece of concealment.

Concealment had been the heaviest charge in the controversy all along. Testimony and committee studies in the Senate had brought out in recent weeks that the Export-Import Bank, set up by Congress to facilitate foreign trade, had plunged heavily into the arms business. About 40 per cent of its loans were now financing arms sales, and a third of the arms sales were to the underdeveloped countries. What was most disturbing to many Senators (and Congressmen) of both parties was that the sales to the underdeveloped lands were financed by a method they had not been aware of.

A special office in the Defense Department, headed by the Pentagon's chief arms salesman, Henry J. Kiss, would apply to Ex-Im for a loan on behalf of a given un-

derdeveloped country it would identify only as "Country X." Ex-Im would grant the loan without further questions, because Mr. Kiss's office guaranteed repayment. Mr. Kiss was able to provide the guarantee because of a special revolving fund in the Defense Department. The fund was set up in 1957 and had grown over the years to \$383-million.

The fund's original purpose had been to help in a transition from arms grants to arms sales; it was to be used as a source of credit or for underwriting loans by commercial banks. Instead, the fund in 1965 turned to the Export-Import Bank, which demanded lower interest rates, 5½ or 6 per cent, than commercial banks. Under a new law that it obtained from Congress in 1964—without, apparently, clear Congressional awareness of the intent—the Pentagon was able to guarantee loans by covering only 25 per cent of their totals. Hence it was able to underwrite \$604-million in Ex-Im loans for arms sales to 14 underdeveloped countries in the past two years.

Though the Administration claimed that appropriate committees of Congress had been kept informed, some important members of the committees denied it, and the Administration found a rebellion on its hands. The charge of the Congressional rebels was that the "Country X" system had resulted in overly permissive if not over-eager arms sales without adequate top-level examination of whether each sale was in the total best interests of the United States.

The first battle took place week before last over an amendment by Senator Allen J. Ellender, Democrat of Louisiana, to a bill extending Ex-Im's life by another five years. Senator Ellender wanted Ex-Im's "Country X" dealings with underdeveloped countries banned.

The Administration counter-attacked with intense lobbying. One of its chief arguments was that the amendment would hurt Israel, which, it was now known, had received \$88-million in "Country X" funds in the past two years.

The retort to that on the Senate floor was that Israel was not an underdeveloped but a highly credit-worthy country that could qualify for direct Ex-Im or other loans.

This argument was unavailing. Some Senators, mostly from urbanized states, who had wanted to vote for the Ellender amendment, decided it was too risky for domestic political reasons. The votes killed the amendment 48 to 40.

That set the stage for the Senate floor battle last week. The immediate issue this time was amendment by Senator Frank Church, Democrat of Idaho, written into the new foreign aid bill by the Foreign Relations Committee and abolishing the Pentagon revolving fund at the end of the year. Senator Henry M. Jackson, Democrat of Washington and Administration stalwart in the controversy, offered an amendment maintaining the fund.

The arguments on both sides were the same as before. A no count indicated another narrow victory for the Administration.

Suddenly, just before the scheduled vote Tuesday, the ballooned up. Senators J. W. Fulbright, Mike Mansfield and others in the rebel faction discovered that the Jackson amendment contained even broader powers for the Defense Department—to purchase promissory notes given to private American arms suppliers by foreign governments, and to have the notes discounted at the Ex-Im Bank.

A previously undecided Senator hurried out of Mr. Mansfield's office saying, "Now they've gone too far." On the Senate floor Mr. Fulbright charged that an attempt had been made to "hoodwink" the Senate. Eight Senators switched their votes from the week before. The Jackson amendment was defeated, 50 to 43.

John G. Tower, Republican of Texas, tried to recoup for the Administration by offering the Jackson amendment without the offending section. He reclaimed three of the eight defectors but was defeated 46 to 45. Later it was reported that the "tricky" section had been written in the Pentagon office of Mr. Kiss.

The issue was still to be fought out in the Senate-House conference on the foreign aid bill. But in the Senate the Administration had been felled by what one Senator called "the Kiss of death."